



KZN Provincial Treasury

Audit Committee Charter for Municipalities

Prepared by

Provincial Internal Audit Services

Revised May 2011

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1. Introduction

TheMunicipality has established an Audit Committee in accordance with section 166 of the Municipal Finance Management Act, Act no 56 of 2003.

2. Purpose Statement

The purpose of the Audit Committee charter is to set out the status, authority, roles and responsibilities of the Audit Committee of the Municipality. The status, authority, roles and responsibilities are in accordance with section 166 of the Municipal Finance Management Act, Act no 56 of 2003 and as delegated by the Municipality's Council. Consideration has also been given to the recommendations contained in the King Report on Governance for South Africa 2009 (King III). This charter guides the Audit Committee in fulfilling its obligations.

3. Authority of Audit Committee

The Audit Committee of theMunicipality is authorized, in terms of this charter, to perform the duties and functions required to ensure adherence to the provisions of the Municipal Finance Management Act, the applicable provisions of the Municipal Systems Act and the Municipal Structures Act and applicable regulations.

In carrying out its mandate, the Audit Committee must have regard to the strategic goals of theMunicipality, strategic focus areas as outlined in the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP).

4. Role of Audit Committee

The role of the Audit Committee is to assist the Council and the Accounting Officer in fulfilling its oversight responsibilities with regard to the integrity of internal control and accounting function, internal auditing and external auditing and reporting practices of the municipality and other such duties as may be directed by the Council and Accounting officer, and in so doing shall:

- (a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to :
 - (i) internal financial control and internal audits;
 - (ii) risk management;
 - (iii) accounting policies;
 - (iv) the adequacy, reliability and accuracy of financial reporting and information;

- (v) the alignment and non contradiction of financial and non financial information contained in the integrated report;
 - (vi) performance management;
 - (vii) effective governance;
 - (viii) compliance with the Municipal Finance Management Act , the annual Division of Revenue Act and any other applicable legislation;
 - (ix) application of a coordinated combined assurance model to all assurance activities;
 - (x) performance evaluation; and
 - (xi) any other issues referred to it by the municipality;
- (b) review the annual financial statements and the non financial information contained therein (integrated report to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with the Municipal Finance Management Act, the annual Division of Revenue Act and any other applicable legislation;
 - (c) respond to the council on any issues raised by the Auditor-General in the audit report;
 - (d) carry out such investigations into the financial affairs of the municipality as the council of the municipality may request; and
 - (e) perform such other functions as may be prescribed.

In performing its duties, the committee will maintain effective working relationships with the Council, management, and the internal and external auditors. To perform their duties effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the Council's business, operations and risks.

5. Responsibilities of Audit Committee

The Audit Committee is required to consider any matters relating to the financial affairs of the municipality, internal and external audit matters. The committee must review and assess the qualitative aspects of financial reporting, the municipality's processes to manage business and financial risk, governance processes and compliance with applicable legal, ethical and regulatory requirements.

The Audit Committee does not assume the functions of management which remain the responsibility of Exco and the delegated officials.

Internal Control

- 5.1 Assess and monitor the extent to which the Council's "control culture" is adequate in terms of the importance of internal control, the management of risk.
- 5.2 Assess and report on the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown.
- 5.3 Monitor the responses of the Council to internal control recommendations made by the internal and external auditors, with a view to enhancing appropriate accountability.

Financial Reporting**a) General**

- 5.4 Consider the current areas of greatest financial risk and how management is managing these effectively.
- 5.5 Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal control, or other similar issues.
- 5.6 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- 5.7. Review changes in accounting policies.
- 5.8 Review any legal matters which could significantly impact the financial statements.

b) Annual Financial Statements

- 5.9 Review the annual financial statements and determine whether they are complete and consistent with the information known to committee members; assess whether the financial statements reflect appropriate accounting principles. Consider if disclosure in the financial statements is appropriate and complies with legislation and the requirements of the Auditor-General.
- 5.10 Ensure that there is no conflict between the financial and non financial information contained in the integrated report.
- 5.11 Pay particular attention to complex and/or unusual transactions.

- 5.12 Focus on judgmental areas, for example, those involving valuation of assets and liabilities; warranty, product or environmental liability; litigation reserves; and other commitments and contingencies.
- 5.13 Meet with management and the external auditors to review the financial statements and the results of the audit prior to presentation to the Executive Committee.
- 5.14 Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the Council and its operations.

Internal Audit

- 5.14 Review and approve the annual risk based internal audit plan and the three year strategic plan. Review the activities and organisational structure of the internal and external audit function and ensure no unjustified restrictions or limitations are made.
- 5.15 Review the qualifications of internal audit personnel and concur in the appointment, replacement, reassignment or dismissal of the Head- Internal Audit.
- 5.16 Review the overall effectiveness and efficiency of the internal audit function. Ensure the internal audit function is subject to an independent quality review as and when the Committee determines it appropriate.
- 5.17 Meet separately with the Head - Internal Audit to discuss any matter that the committee or auditors believe should be discussed privately.
- 5.18 Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis.
- 5.19 Ensure that management responds to recommendations by the internal auditors on a timely basis.
- 5.20 Ensure that the performance management system, the key performance indicators and the performance target monitoring and measurement have been reviewed by internal audit annually.

External Audit

- 5.21 Review the overall audit plan of the Auditor-General and ensure no unjustified restrictions or limitations have been placed on the scope.

- 5.22 Confirm that any difficulties experienced with regard to the “Audit Steering Committee” are appropriately dealt with.
- 5.23 Meet separately with the Auditor-General to discuss any matters that the committee or auditors believe should be discussed privately.
- 5.24 Ensure that significant findings and recommendations by the Auditor-General are received and discussed on a timely basis.
- 5.25 Ensure that management responds to recommendations by the Auditor-General on a timely basis.

Compliance with Laws and Regulations

- 5.26 Obtain regular updates from management and Council’s Legal Advisor regarding compliance matters.
- 5.27 Review the effectiveness of the system by which management investigates and follows-up any fraudulent acts or non-compliance.
- 5.28 Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- 5.29 Review the findings of any examinations by regulatory agencies.

Performance Management

- 5.30 Review the quarterly reports submitted to it by internal audit in terms of sub regulation (1) (c) (ii) of the Municipal Planning and Performance Management Regulations (2001)
- 5.31 Review the municipality’s performance management system and make recommendations in this regard to the council
- 5.32 At least twice during a financial year submit an audit report to the municipal council concerned.
- 5.33 In reviewing the municipality’s performance management system, the committee will focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned.

Reporting Responsibilities

- 5.34 Regularly report to the Executive Committee about committee activities and make appropriate recommendations.

- 5.35 Ensure that the Executive Committee is aware of matters which may significantly impact the financial condition or affairs of the Council.

Risk Management

- 5.36 Consider the Municipality's key risk management strategy and policy and provide appropriate advice. Specifically, the Committee must oversee:
- i financial reporting risks;
 - ii internal financial controls;
 - iii fraud risks as it relates to financial reporting; and
 - iv IT risks as it relates to financial reporting.
- 5.37 Review the risk management plan including the disaster recovery plans for the year and provide advice of focus areas.
- 5.38 Consider the risk management reports and assess measurers in place to mitigate the inherent risks identified.
- 5.39 Review the opinion of Internal Audit function regarding the municipality's risk management systems.

6. Authority

The Council authorises the Audit Committee, within the scope of its responsibilities and with the knowledge and co-operation of the Accounting Officer, to:

- Seek any information it requires from any employee and councillor or from external parties;
- Obtain outside legal or other professional advice within the scope of its responsibilities and allocated budget provision;
- Require Council officers to be present at meetings, where appropriate.

In order to enable the Audit Committee to exercise its responsibilities, all employees are directed to co-operate with any request it may make.

7. Constitution and Membership

- 7.1 The Audit Committee shall be appointed by the Executive Committee. The audit committee will comprisemembers, All members should have the necessary knowledge and expertise to expedite the working of the committee. One of whom should have the necessary expertise in performance management.
- 7.2 The term of office of the committee shall be at the discretion of the Executive Committee.

- 7.3 Each member should be capable of making a valuable contribution to the committee. Members should be knowledgeable in financial matters and local government issues. In order to assure the necessary expertise in key financial and legal matters it would be advisable to have at least one Chartered Accountant, a Certified Internal Auditor and one legal expert and a individual with performance management expertise to serve as members on the audit committee.
- 7.4 A quorum for any meeting will be in excess of 50% of members including the Chairperson.
- 7.5 The Chairperson (who is not in the employ of the Municipality) shall be elected by the Audit Committee, the former being one of the members from the private sector.
- 7.6 No councilor may be a member of the Audit Committee
- 7.7 The committee may invite such other persons to its meetings as it deems necessary.
- 7.8 The internal and external auditors should be invited to make presentations to the Audit Committee as appropriate.
- 7.9 Meetings shall be held not less than four times a year. Special meetings may be convened as required. Internal audit or the external auditors may request a meeting to be convened if they consider that it is necessary.
- 7.10 The proceedings of all meetings will be minuted/ recorded.
- 7.11 The minutes and recommendations of the Audit Committee meetings should be submitted to the Executive Committee for consideration.
- 7.12 Any member failing to attend three consecutive meetings will be automatically dismissed and the Executive Committee will be required to appoint an alternative.
- 7.13 The audit committee members of theMunicipality should receive remuneration for services rendered as per rates approved by the Council.
- 7.1 On a regular basis review its own effectiveness against pre-set criteria such as, number of meetings held, members participation in meeting discussion, co-operation of internal audit function, management and office of the Auditor General.

8. Confidentiality and conflict of interests

A member of the Audit Committee shall maintain strict confidentiality in respect of any information of a confidential nature to which he/she may become privy at meetings of the committee, and shall only disclose such information as may become necessary or required for the proper performance of his/her duties and functions.

Every member, appointed, co-opted, or full time employee of the Municipality, involved in the Audit Committee meetings, deliberation and resolutions, is obliged to declare any conflict of interest and may not:

Use his or her position to promote any special financial or other interest, including but not limited to the interest of any individual, company or other entity;

Act in a manner that is inconsistent with his or her membership and the role of the Audit Committee ;

Expose himself or herself to any situation involving the risk of a conflict between his or her official and / or professional responsibilities and a personal interest;

Use his or her position or any information entrusted to him or her or obtained as a result of his or her involvement in the Audit Committee to enrich himself or herself or improperly benefit any other person or entity; and

Act in a manner that may comprise the credibility, workings and integrity of the Audit Committee and the Municipality.

9. Attendance by officials and other parties

Invitations to attend the Audit Committee Meetings will be extended to the following:

- The Accounting Officer/Municipal Manager
- All Heads of Department
- The Head of Internal Audit
- Legal Advisor
- The Auditor General

Furthermore any person may be requested to attend a meeting of the audit committee when the need may arise. Officials must give the audit committee their full co-operation. Invitees may not vote on any matter before the committee.

10. Secretariat

- 10.1 The dates of meetings should be agreed upon at the commencement of each financial year. Notice of each meeting shall be given in writing to all members of the Committee and other invited parties, at least 14 days prior to the date of the meeting.
- 10.2 The agenda of the meeting together with the audit pack shall be prepared and distributed at least 7 days prior to the meeting date.
- 10.3 The secretariat shall keep minutes of all meetings and shall circulate the minutes of the meeting to all members of the Audit Committee and as determined in terms of Council policy.
- 10.4 The audit committee shall prepare a quarterly report for consideration by the Executive Committee.

11. Effectiveness of the Audit Committee

- 11.1 In order for the Committee to remain effective, its objectives and responsibilities should come under annual performance evaluation by a competent agent appointed to carry the evaluation to ensure that:
- Its activities meet the Municipality's needs; and
 - Changes in the environment in which the Municipality operate are taken into account on timely basis.
- 11.2 Members of the Committee should also assess themselves bi-annually using the designed audit committee assessment questionnaire.
- 11.3 Auditor General will independently report on the effectiveness and efficiency of the Committee every year.
- 11.4 The Provincial and National Treasuries as a monitoring function also conduct evaluations based on good governance principles on an annual basis.
- 11.5 The Chair of the Audit Committee will ensure that the relationship between the Committee and Council, once established, is sustained through assistance by Exco or equivalent.

12. Conclusion

The role of the Audit Committee is to assist theMunicipality on achieving its strategic goals and objectives, by helping to maintain effective internal

controls, risk management, accurate financial reporting and corporate governance principles.

These terms of reference shall be reviewed from time to time and amended as required, subject to the approval of the EXCO.

13. Approval

ON BEHALF OF THE AUDIT COMMITTEE:

Chairperson of the Audit Committee: _____

Date: _____

APPROVED BY:

Chairperson of Executive Committee: _____

Date: _____